

**Compliance With Lien Notice Requirements
Has Not Been Achieved**

August 2002

Reference Number: 2002-40-135

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

August 2, 2002

MEMORANDUM FOR COMMISSIONER, SMALL BUSINESS/
SELF-EMPLOYED DIVISION

A handwritten signature in cursive script, reading "Pamela J. Gardiner", is positioned above the "FROM:" line.

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Audit Report - Compliance With Lien Notice Requirements
Has Not Been Achieved (Audit # 200240005)

This report presents the results of our review to determine if the Notices of Federal Tax Lien (NFTL) filed by the Internal Revenue Service (IRS) complied with legal requirements set forth in 26 U.S.C. § 6320.¹

When initial contacts by the IRS do not result in the successful collection of unpaid tax, the IRS has the authority to attach a claim to the taxpayer's assets for the amount of unpaid tax liabilities.² Since January 19, 1999, 26 U.S.C. § 6320 has required the IRS to notify taxpayers in writing within 5 business days of the filing of a NFTL.

The Treasury Inspector General for Tax Administration (TIGTA) is required to determine annually whether NFTLs filed by the IRS comply with the legal guidelines in 26 U.S.C. § 6320.³ This is the fourth audit performed on the IRS' compliance with the law and the IRS' own related internal guidelines when filing NFTLs.

In summary, we found that the IRS did not completely comply with the law. A review of 223 NFTLs identified 20 NFTLs (9 percent) where the IRS did not comply with all the provisions of 26 U.S.C. § 6320. In three NFTLs, the IRS did not mail the lien notices to the taxpayer. For the remaining 17 NFTLs, the IRS correctly mailed the lien notices; however, it did not mail the lien notices timely. In addition, for another 11 NFTLs (5 percent), we could not determine if the IRS complied with the law because it did not provide proof of timely mailing. In 46 of 223 of the NFTLs reviewed (21 percent), the

¹ 26 U.S.C. § 6320 (Supp. IV 1998).

² 26 U.S.C. § 6321 (1994).

³ 26 U.S.C. § 7803(d)(1)(A)(iii) (Supp. IV 1998).

IRS did not follow its own internal guidelines when issuing lien notices, including the guidelines for notifying taxpayer representatives, processing undelivered mail, and receipting and maintaining certified mail registers.

Management's Response: The IRS agreed with our recommendations and plans to initiate corrective action. Specifically, the IRS will consult with Chief Counsel regarding proper actions to correct any potential legal violations in cases identified by the TIGTA. The IRS also plans to create a systemic method for transferring taxpayer representative information between systems used to process liens and lien notices. Management's complete response to the draft report is included as Appendix VII.

Copies of this report are also being sent to the IRS managers who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Michael R. Phillips, Assistant Inspector General for Audit (Wage and Investment Income Programs), at (202) 927-0597.

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Background

When initial contacts by the Internal Revenue Service (IRS) do not result in the successful collection of unpaid tax, the IRS has the authority to attach a claim to the taxpayer's assets for the amount of unpaid tax liabilities.¹ This claim is referred to as a Federal Tax Lien.

Since January 19, 1999, 26 U.S.C. § 6320² has required the IRS to notify taxpayers in writing within 5 business days of the filing of a Notice of Federal Tax Lien (NFTL).³ The IRS is required to notify taxpayers the first time a NFTL is filed for each tax period. The *Notice of Federal Tax Lien Filing and Your Right to a Hearing Under IRC 6320*⁴ (lien notice) is used for this purpose and advises taxpayers that they have 30 days, after that 5-day period, to request a hearing with the IRS Office of Appeals. The lien notice will indicate the date this 30-day period expires.

The law also requires that the lien notice explain, in simple terms, the amount of unpaid tax, administrative appeals available to the taxpayer, and the provisions of the law and procedures relating to the release of liens on property. The lien notice must be given in person, left at the taxpayer's home or business, or sent certified or registered mail to the taxpayer's last known address.

A synopsis of the IRS collection and lien filing processes is included in Appendix V. A description of IRS computer systems used in the filing of liens is included in Appendix VI.

The IRS is filing an increasing number of NFTLs to protect the government's interest. Since the enactment of the law, the number of NFTLs filed has increased significantly from approximately 168,000 to 428,000 liens. The following chart shows the number of NFTLs filed in the last 5 fiscal years.

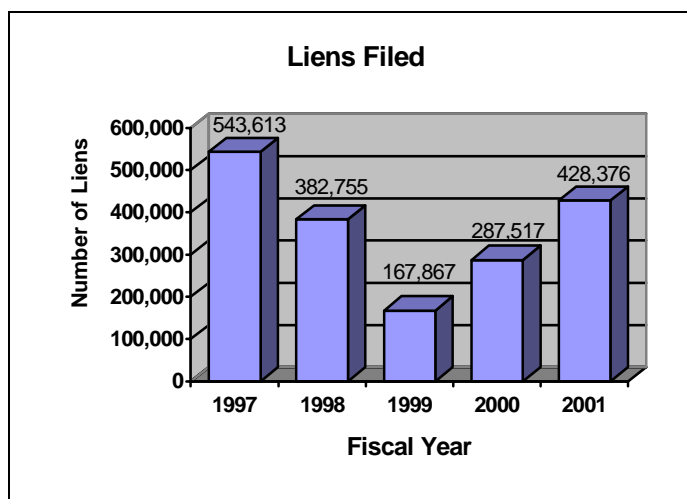
¹ 26 U.S.C. § 6321 (1994).

² 26 U.S.C. § 6320 (Supp. IV 1998).

³ *Notice of Federal Tax Lien Under Internal Revenue Laws*, Form 688-F (Rev.2-1985), Cat. No. 164R.

⁴ *Notice of Federal Tax Lien Filing and Your Right to a Hearing Under IRC 6320*, Letter 3172 (DO) (01-2000).

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Source: IRS Collection 5000-23 Reports.

The Treasury Inspector General for Tax Administration (TIGTA) is required to determine annually whether NFTLs filed by the IRS comply with the legal guidelines set forth in the law.⁵ We performed our audit work between November 2001 and April 2002. Our review included site visits to the Office of Compliance within the IRS' Small Business/Self Employed Division (SB/SE) and the Kansas-Missouri and Southern California Area Offices. This audit was performed in accordance with *Government Auditing Standards*. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

Results of prior TIGTA reviews

This is the fourth annual audit to determine if the IRS complied with the legal requirements of 26 U.S.C. § 6320. In the prior 3 years, the TIGTA reported that the IRS had not yet achieved full compliance with the law and its own internal guidelines. The TIGTA reported in Fiscal Year (FY) 1999 that 33 percent of NFTLs reviewed involved potential violations of taxpayer rights.⁶ In FYs 2000⁷ and

⁵ 26 U.S.C. § 7803(d)(1)(A)(iii) (Supp. IV 1998).

⁶ *The Internal Revenue Service Should Improve Its Federal Tax Lien Procedures* (Reference Number 1999-10-074, dated September 1999).

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Untimely Mailing of Lien Notices Continues to Be a Significant Cause of Noncompliance

2001,⁸ the TIGTA reported that 4 and 8 percent, respectively, of the NFTLs reviewed did not comply with the law.

A review of 223 NFTLs identified 20 NFTLs⁹ (9 percent) where the IRS did not comply with all the provisions of 26 U.S.C. § 6320. For three NFTLs, the IRS did not mail the lien notices to the taxpayers. For the remaining 17 NFTLs, the IRS correctly mailed the lien notices; however, it did not mail the lien notices timely.

- For one NFTL, the lien notice was not mailed to the taxpayer because the Automated Lien System (ALS)¹⁰ generating the lien notice limits the NFTL to 15 tax periods. A tax period is the period of time for which a return is filed. In this case, the taxpayer had 21 outstanding tax periods, i.e., the taxpayer owed taxes for 21 tax periods. One lien notice was issued for 15 tax periods but not for the additional 6 tax periods. The IRS cannot provide a reason for this and has not been able to replicate this condition.
- For two NFTLs, two lien notices were not issued to the taxpayers because of employee errors. The IRS employees requesting the liens did not ensure they had used the taxpayers' most current address available on the IRS' computer systems before mailing the lien notices.
- For 17 NFTLs, 21 lien notices were not mailed within 5 business days after the day of the filing of the liens. The notices were mailed from 1 to 22 days late. The IRS stated this happened because of printer problems and staffing issues.

⁷ *Compliance With Requirements for Notifying Taxpayers of Federal Tax Lien Filings Has Not Yet Been Achieved* (Reference Number 2000-10-152, dated September 2000).

⁸ *Full Compliance With Requirements for Notifying Taxpayers of Federal Tax Lien Filings Has Not Yet Been Achieved* (Reference Number 2001-10-127, dated August 2001).

⁹ One NFTL (one case) may require multiple lien notices since the IRS is required to separately notify taxpayers' spouses and business partners.

¹⁰ See Appendix VI for a description of this system.

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In addition, for another 11 NFTLs (5 percent), we could not determine if the IRS complied with the law because it did not provide proof of timely mailing.

We estimate that similar taxpayer rights could have been potentially affected by 29,219 NFTLs from October 1, 2000, to July 31, 2001. If the taxpayer is not notified that a NFTL has been filed, he or she might not be aware of the right to appeal. In addition, delays in mailing the lien notices can reduce the time the taxpayers have to request a hearing to less than the 30-day period allowed by the law. These errors could result in potential violations of the taxpayer's rights should the taxpayer appeal the filing of the lien notice and the IRS deny the request for the appeal.

The IRS National Headquarters NFTL compliance review identified similar potential violations of the law¹¹

In response to the TIGTA's FYs 2000 and 2001 reports, the IRS modified its NFTL compliance review. The review was modified to include analyses to determine if the IRS notified business partners, spouses, and taxpayers' representatives of the filing of a NFTL and to determine if undelivered mail was timely processed. The review also focuses on the cause of noncompliance with lien procedures and follows up with the appropriate offices to improve compliance with the lien process by conducting training sessions for the Automated Lien System (ALS) Unit Managers.

Using the new criteria, the IRS performed a review of NFTLs filed from January through June 2001. The results, reported February 22, 2002, identified lien notices that were not mailed within 5 business days after the day of the filing of the liens and not mailed to the last known address. The IRS reported that printer problems and staffing shortages contributed to untimely mailing of lien notices.

The revised compliance review continues to be an effective method to measure the IRS' compliance with the law. However, it is not identifying issues in sufficient time to ensure that immediate corrective action is taken. We are not

¹¹ The IRS and the TIGTA used different methodologies when conducting the NFTLs reviews; therefore, the results of the two reviews cannot be strictly compared.

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recommending any changes to the review process, since we do not believe the risk warrants additional procedures or reviews.

Recommendation

The Commissioner, SB/SE, should:

1. Consult with the Office of Chief Counsel to identify any actions necessary to correct the potential legal violations that the TIGTA identified in this audit.

Management's Response: As the IRS has done with cases identified in past audits, it will review the cases the TIGTA identified with Chief Counsel and discuss the actions needed to correct any potential legal violations.

Problems With Notifying Taxpayer Representatives and Processing Mail Continue to Affect Compliance With Internal Guidelines

In 46 of 223 of the NFTL cases reviewed (21 percent), the IRS did not follow its own internal guidelines when issuing lien notices, including its guidelines for notifying taxpayer representatives, processing undelivered mail, and receipting and maintaining certified mail registers. In 15 of the 46 NFTLs, there were multiple violations of the internal guidelines.

Notice to taxpayer representatives

For 33 of the 37 NFTLs (89 percent) identified where the taxpayer had a representative, a copy of the lien notice was not sent to the representative per the IRS' internal guidelines because of employee error. The IRS' procedures require that a copy of the notice be sent to the taxpayer's representative when a NFTL is filed on the assets of a taxpayer he or she represents. IRS employees requesting the NFTL and lien notice are responsible for forwarding, via facsimile or other manual means, the taxpayer representative information to the ALS units so a copy of the lien notice can be sent. The ALS units are responsible for printing and mailing NFTLs and related lien notices.

Of the 33 NFTLs, 14 were initiated through the Automated Collection System (ACS). Subsequent to our audit period, the IRS implemented programming changes for the ACS. Employees using the ACS now have the ability to electronically forward taxpayer representative information to the ALS units. However, the representative information

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must still be manually input by ALS unit employees to the ALS.

The other 19 of 33 NFTLs were initiated through the Integrated Collection System (ICS). In 14 of the 19 NFTLs, a revenue officer using the ICS did not document that he or she had requested a lien notice be sent to the taxpayer's representative. In November 2000, the IRS enhanced its internal lien procedures by issuing a memorandum requiring revenue officers to document in the case history when they request a lien notice for taxpayers' representatives. These guidelines were incorporated into the IRS' manual in August 2001. Revenue officers' managers are also required to review case files for this documentation. However, two managers interviewed advised us that neither they nor their revenue officers were aware of the additional guidance.

Undeliverable mail

For two NFTLs, IRS employees did not send taxpayers new lien notices when the lien notices were returned as undeliverable. The IRS had updated the taxpayers' addresses since the lien notices had been mailed. However, the employees did not follow undeliverable mail procedures and research IRS systems for a new address.

Proof of mailing

For 11 NFTLs¹² (12 lien notices), the IRS could not provide proof of mailing because there were no certified mail listings on file, the listings were not date stamped to substantiate that notices were mailed to taxpayers, or the date on the listings was not legible. The IRS' procedures require the retention of the date stamped copy of the listings for 10 years after the end of the processing year. Without the dated proof of mailing, the IRS may be unable to protect itself against a taxpayer's claim that he or she did not receive timely notice of the lien and was unaware a NFTL had been filed against his or her assets.

The process for mailing the notices and obtaining the date stamp on the certified mail listings varies among offices.

¹² These 11 NFTLs are those identified earlier that we could not determine if the IRS complied with the law because it did not provide proof of timely mailing.

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Some ALS units take the certified mail listings and notices directly to the United States Postal Service for mailing while others rely on the IRS Mailroom Function to process the mail and obtain a date stamp on the listings.

The IRS National Headquarters NFTL compliance review identified similar instances of noncompliance with internal guidelines

The IRS' review identified the retention, legibility, and maintenance of Certified Mail Listings as a major area of noncompliance with lien internal guidance. The review also noted that taxpayer representatives were not always provided with a copy of the lien notice. However, only the ICS was researched to determine if taxpayer representatives were issued lien notices; the ACS was not researched. Therefore, the IRS's review did not identify this as an area of noncompliance.

Based on its review results, the IRS recommended that ALS unit managers assign an employee to review the lien notice response dates and make appropriate changes, contact their local post office to discuss their certified mail listing needs and request the post office's assistance, and assign an employee the responsibility for checking the certified mail listings when they are returned to the ALS unit. In addition, a programming change was recommended for the ICS that would allow the employee to forward taxpayer representative information to the ALS at the time the NFTL is requested, similar to the current ACS feature. As of April 2002, the IRS had not approved the implementation of this recommendation. If the IRS implements this recommendation to mirror the ACS feature, the taxpayer representative information will still have to be manually input to the ALS.

Recommendation

The Commissioner, SB/SE, should:

2. Develop a systemic means to transfer taxpayer representative information to the ALS to help ensure taxpayer representatives are notified of lien filings.

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Management's Response: The IRS will create a systemic method for transferring taxpayer representative information from the ICS to the ALS.

Detailed Objective, Scope, and Methodology

The objective of this audit was to determine if the Notices of Federal Tax Lien (NFTL) filed by the Internal Revenue Service (IRS) complied with legal requirements set forth in 26 U.S.C. § 6320.¹ To accomplish the objective, we did the following.

- I. To follow up on issues identified in the prior year's review (undeliverable mail and notices issued to taxpayers' business partners and taxpayer representatives),² we discussed procedures with personnel in the Office of Compliance within the IRS' Small Business/Self-Employed Division (SB/SE) and in the Kansas-Missouri and Southern California Area Offices. We judgmentally selected 2 offices from the 35 Area Offices based on travel costs as well as on the volume of NFTLs generated by the offices, choosing 1 high-volume office and 1 low-volume office.
- II. To determine whether NFTLs issued by the IRS complied with legal requirements set forth in 26 U.S.C. § 6320 (a) and internal guidelines, we:
 - A. Obtained from the IRS an extract of 325,796 NFTLs prepared by the IRS nationwide on the Automated Lien System (ALS) between October 1, 2000, and July 31, 2001. We eliminated the refiled NFTLs since they do not require the issuance of a lien notice to the taxpayer. We validated the data by using a random number generator to select a sample of 25 NFTLs. We researched the 25 cases on the ALS to verify the NFTLs were on the system and the fields selected contained accurate data.
 - B. Selected a statistically valid sample of 223 NFTLs for review from the extract in II.A. We used attribute sampling and the following formula to calculate the minimum sample size (n) of 223:
$$n = (NZ^2 p(1-p)) / (NE^2 + Z^2 p(1-p))$$

N = Population (326,000 lien notices)
Z = Desired Confidence Level (90 percent)
p = Expected Error Rate (8 percent)
E = Precision Level (3 percent)
 - C. Reviewed the content of a lien notice to determine whether the amount of unpaid tax, the right to request a hearing during the 30 days after the 5-day period, administrative appeals rights, and provisions for the release of the lien are included as required by the law.

¹ 26 U.S.C. § 6320 (Supp. IV 1998).

² *Full Compliance With Requirements for Notifying Taxpayers of Federal Tax Lien Filings Has Not Yet Been Achieved* (Reference Number 2001-10-127, dated August 2001).

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- D. Requested certified mail listings (Postal Service Form 3877) from the area offices for the sample cases identified in II.B and compared the lien notice filing (ALS print) dates to the dates on the certified mail listings to calculate if the notices were mailed within 5 business days after the NFTLs had been filed. We obtained our data by directly accessing the ALS and researching lien cases.
 - E. Analyzed 223 NFTLs by reviewing taxpayer data on the Automated Collection System, the Integrated Collection System, the Integrated Data Retrieval System, the Centralized Authorization File at the Master File, and the ALS to determine if the lien due process notices were issued to taxpayers, business partners, and spouses and were mailed to the correct addresses. A description of IRS computer systems used in the filing of lien notices is included in Appendix VI.
 - F. Discussed NFTL exception cases with personnel in the SB/SE Division's Office of Compliance to determine cause and to obtain agreement to potential violations and corrective action if appropriate.
- III. To determine if the NFTL compliance review provides an effective method to monitor and measure compliance with the law and related internal guidelines and to determine whether exception cases and findings identified through the TIGTA sample are comparable with those in the IRS' review, we discussed the IRS review with the appropriate IRS employee and obtained copies of the most recent results.

Major Contributors to This Report

Michael R. Phillips, Assistant Inspector General for Audit (Wage and Investment Income Programs)

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Kerry R. Kilpatrick, Director

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Appendix III

Report Distribution List

Commissioner N:C
Commissioner, Wage and Investment Division W
Director, Compliance, Small Business/Self-Employed Division S:C
Director, Compliance, Wage and Investment Divisions W:CP
Director, Customer Account Services, Small Business/Self-Employed Division S:CAS
Director, Customer Account Services, Wage and Investment Division W:CAS
Director, Strategy and Finance W:S
Chief Counsel CC
National Taxpayer Advocate TA
Director, Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis N:ADC:R:O
Office of Management Controls N:CFO:F:M
Audit Liaisons: Small Business/Self-Employed Division S:COM.
Wage and Investment Division W

Outcome Measures

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. This benefit will be incorporated into our Semiannual Report to the Congress.

Type and Value of Outcome Measure:

- Taxpayer Rights and Entitlements – Potential; 29,219 Notices of Federal Tax Lien (NFTL) with legal violations of taxpayers' rights (see page 3).

Methodology Used to Measure the Reported Benefit:

From the nationwide statistically valid sample of 223 NFTLs,¹ we identified 20 NFTLs (9 percent) with potential legal violations of taxpayers' rights. We projected the findings to the total population of 325,796 NFTLs prepared by the Automated Lien System (ALS)² between October 1, 2000, and July 31, 2001. We estimated that similar taxpayer rights could have been potentially affected in 29,219 NFTLs (20/223 x 325,796 population). We are 90 percent confident that the range of NFTLs affected by similar errors is between 28,342 and 30,096.

Taxpayer rights could be potentially affected because the taxpayer not receiving a notice or receiving a late notice might not be aware of the right to appeal or have less than the 30-day period allowed by the law to request a hearing. In addition, taxpayer rights could be potentially affected when the taxpayer appeals the filing of the lien and the Internal Revenue Service denies the request for the appeal.

¹ One NFTL may require multiple lien notices since the IRS is required to separately notify taxpayers' spouses and business partners.

² See Appendix VI for a description of this system.

Synopsis of the Internal Revenue Service Collection and Lien Filing Processes

The collection of unpaid tax begins with a series of letters (notices) sent to the taxpayer advising of the debt and asking for payment of the delinquent tax. The Internal Revenue Service (IRS) computer systems are programmed to mail these notices when certain criteria are met. If the taxpayer does not respond to these notices, the account is transferred for either personal or telephone contact. A description of IRS computer systems used in the filing of lien notices is included in Appendix VI.

- IRS employees who make personal (face-to-face) contact with taxpayers are called revenue officers and work in the IRS area offices. The computer system used in most of the area offices to track collection actions taken on taxpayer accounts is called the Integrated Collection System (ICS).
- IRS employees who make only telephone contact with taxpayers work in call sites in IRS Customer Service offices. The computer system used in the call sites to track collection actions taken on taxpayer accounts is called the Automated Collection System (ACS).

When these efforts have been taken and the taxpayer has not paid the tax liability, designated IRS employees are authorized to file a Notice of Federal Tax Lien (NFTL). Liens protect the government's interest by attaching a claim to the taxpayer's assets for the amount of unpaid tax liabilities. The right to file a NFTL is created by 26 U.S.C. § 6321 (1994) when:

- The IRS has made an assessment and given the taxpayer notice of the assessment, stating the amount of the tax liability and demanding payment.
- The taxpayer has neglected or refused to pay the amount within 10 days after the notice and demand for payment.

When designated employees request the filing of a NFTL using either the ICS or the ACS, the NFTL requests from both systems are transferred to the Automated Lien System (ALS). All NFTLs are processed by the ALS unless there is an expedite situation, in which case the NFTL is manually prepared. Although they are manually prepared, manual NFTLs are tracked and controlled on the ALS. The ALS maintains an electronic database of all open NFTLs and updates the IRS primary computer records to indicate that a NFTL has been filed.

Most lien notices are mailed to taxpayers by certified or registered mail rather than being delivered in person. To maintain a record of the notices, the IRS prepares a certified mail listing (Postal Service Form 3877) which identifies each notice that is to be mailed. The notices and a copy of the certified mail listing are delivered to the United States Postal Service. A postal employee ensures that all notices are accounted for, then date stamps the listing and returns a copy to the IRS. The stamped certified mail listing is the only documentation the IRS has that

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certifies the date the notices were mailed. The IRS guidelines require that the stamped certified mail listing be retained for 10 years after the end of the processing year.

Internal Revenue Service Computer Systems Used in the Filing of Notices of Federal Tax Lien

The Automated Lien System (ALS) is a comprehensive database that prints NFTLs and lien notices, stores taxpayers' information, and documents all lien activity. Lien activities on both the Integrated Collection System and the Automated Collection System cases are controlled on the ALS by Technical Support or Case Processing functions in area offices. Employees in these offices process NFTLs and lien notices and respond to taxpayer inquiries using the ALS.

The Integrated Collection System (ICS) is an area office computer system with applications designed around each of the main collection tasks, such as opening a case, assigning a case, building a case, performing collection activity, and closing a case. The ICS is designed to provide management information, create and maintain case histories, generate documents, and allow on-line approval of case actions. Lien requests made using the ICS are uploaded to the ALS. The ALS generates the NFTL and related lien notices and updates the Internal Revenue Service's (IRS) primary computer files to indicate that a NFTL has been filed.

The Automated Collection System (ACS) is a computerized call site inventory system that maintains balance due accounts and return delinquency investigations. The ACS employees enter all of their case file information (on-line) on the ACS. Lien notices requested using the ACS are uploaded to the ALS, which generates the NFTL and related lien notices and updates the IRS' primary computer files to indicate that a NFTL has been filed.

The Integrated Data Retrieval System (IDRS) is an on-line data retrieval and data entry system that processes transactions entered from terminals located in both campuses and area offices. The system enables employees to perform such tasks as researching account information, requesting tax returns, entering collection information, and generating collection documents. The IDRS serves as a link from campuses and area offices to the Master File in order for the IRS to maintain accurate records of activity on taxpayers' accounts.

Master File is the IRS' database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.

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Appendix VII

Management's Response to the Draft Report




COMMISSIONER
SMALL BUSINESS/SELF-EMPLOYED DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

JUL 17 2002

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM:  Joseph G. Kehoe
Commissioner, Small Business/Self-Employed Division

SUBJECT: Draft Audit Report – Compliance With Lien Notice
Requirements Has Not Been Achieved
(Audit # 200240005)

I reviewed the draft report and agree with your recommendations. We continue to strive for total compliance with the lien notice requirements of section 6320 of the Internal Revenue Code and our internal procedures.

We consistently contact the Office of Chief Counsel about corrective actions when we identify potential legal violations, and we will continue to seek their guidance. Counsel reiterated that during the Appeals process if the IRS cannot substantiate timely mailing of the Collection Due Process notice, the taxpayer's request for a hearing is considered timely. It is highly unlikely that taxpayers would not receive a hearing under these circumstances.

We also agree with your recommendation concerning the systemic transfer of taxpayer representative information between the Integrated Collection System (ICS) and the Automated Lien System (ALS). Programmers for the two systems are working to create an automatic transfer of information by January 2005.

Our responses to your recommendations follow.

RECOMMENDATION 1

Consult with the Office of Chief Counsel to identify any actions necessary to correct the potential violations that the TIGTA identified in this audit.

ASSESSMENT OF CAUSE

Because we had not identified the potential legal violations cited in this audit, we did not secure legal guidance from Chief Counsel.

CORRECTIVE ACTIONS

As we have done in cases identified in past audits, we will consult with Chief Counsel on potential legal violations. We will review the cases with Chief Counsel and discuss the actions needed to correct any potential legal violations.

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IMPLEMENTATION DATE

October 1, 2002

RESPONSIBLE OFFICIAL

Director, Filing and Payment Compliance, Small Business/Self-Employed Division

CORRECTIVE ACTION MONITORING PLAN

The Program Manager, Technical and Insolvency, will advise the Director, Filing and Payment Compliance, Small Business/Self-Employed Division of corrective action delays.

RECOMMENDATION 2

Develop a systemic means to transfer taxpayer representative information to the ALS to help ensure taxpayer representatives are notified of lien filings.

ASSESSMENT OF CAUSE

We have no systemic means to transfer taxpayer representative information to the ALS for the generation of collection due process notices. Employees must manually input the information to the ALS to generate the taxpayer representative copy of the collection due process notice.

CORRECTIVE ACTIONS

We will create a systemic method for the transfer of taxpayer representative information from ICS to the ALS. ICS will forward representative information to the ALS where the information will be automatically entered into the proper fields for notice generation.

IMPLEMENTATION DATE

January 1, 2005

RESPONSIBLE OFFICIAL

Director, Filing and Payment Compliance, Small Business/Self-Employed Division

CORRECTIVE ACTION MONITORING PLAN

The Program Manager, Technical and Insolvency, will advise the Director, Filing and Payment Compliance, Small Business/Self-Employed Division of corrective action delays.

If you have any questions, please call me at (202) 622-0600, or call Joseph R. Brimacombe, Deputy Director, Compliance Policy, Small Business/Self-Employed Division, at (202) 283-2150.